

Message Text

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ACTION EB-04

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C O N F I D E N T I A L SECTION 01 OF 03 BONN 06785

LIMDIS GREENBACK

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: BUNDESBANK GERMAN CURRENT ACCOUNT PROJECTION

1. SUMMARY. THE BUNDESBANK HAS DRASTICALLY REVISED
DOWNWARD ITS PROJECTED 1977 GERMAN CURRENT ACCOUNT
SURPLUS TO "ABOUT HALF" THE 1976 RATE. END SUMMARY.

2. IN ITS JUST ISSUED MONTHLY REPORT FOR APRIL, THE
BUNDESBANK HAS INCLUDED A SPECIAL SECTION ON THE
GERMAN BALANCE OF PAYMENTS IN WHICH IT CONCLUDES THAT
"TODAY IT LOOKS AS IF THE SURPLUS ON GERMANY'S CURRENT
ACCOUNT, WHICH CAME TO DM 7.5 BILLION OR SOME US
\$3 BILLION IN 1976, WILL DROP TO ABOUT ONE-HALF OF
THAT AMOUNT IN 1977." THE BUNDESBANK BASES THIS
CONCLUSION MAINLY ON A CONTINUATION OF THE DECREASING
RATE OF INCREASE IN GERMAN EXPORTS SHOWN DURING THE
FIRST TWO MONTHS OF THIS YEAR, COMING AFTER AN ACTUAL
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DECLINE (ON A SEASONALLY ADJUSTED BASIS) DURING THE
FOURTH QUARTER OF LAST YEAR. IT EMPHASIZES THAT
DURING THE FIRST TWO MONTHS OF THIS YEAR THE GERMAN
CURRENT ACCOUNT FOR THE FIRST TIME SINCE 1970 HAS
BEEN IN DEFICIT (OF DM 0.6 BILLION) AND COMPARES
THIS WITH THE SURPLUS OF THE SAME MAGNITUDE DURING
THE FIRST TWO MONTHS OF 1976. THE BUNDESBANK CONCEDES

THAT TEMPORARY FACTORS PLAYED AN IMPORTANT ROLE ON BOTH THE EXPORT AND IMPORT SIDE (FOR EXAMPLE, ADVANCE PURCHASES OF GERMAN GOODS PRIOR TO THE REALIGNMENT OF EXCHANGE RATES IN THE FALL OF LAST YEAR, AS WELL AS GERMAN ADVANCE PURCHASES OF OIL PRIOR TO THE EXPECTED PRICE INCREASES) BUT CONCLUDES THAT NEVERTHELESS THE DEVELOPMENTS CALL FOR A VERY SUBSTANTIAL REVISION IN THE CURRENT ACCOUNT PROJECTION. (BOTH THE BUNDESBANK AND THE GOVERNMENT ONLY A FEW MONTHS AGO EXPECTED A 1977 CURRENT ACCOUNT SURPLUS ONLY SLIGHTLY BELOW THAT OF 1976.)

3. WE HAVE DISCUSSED THE BUNDESBANK'S NEW CURRENT ACCOUNT PROJECTION WITH DR. BUB, THE HEAD OF THE BUNDESBANK RESEARCH DEPARTMENT. DR. BUB INDICATED THAT THE BUNDESBANK DOES NOT INTEND AT THIS TIME TO MAKE PUBLIC MORE DETAILED PROJECTIONS THAN THE RATHER GENERAL COMMENTS CONTAINED IN ITS MONTHLY REPORT (WHICH WE ARE POUCHING TO WASHINGTON). IN THE COURSE OF THE DISCUSSIONS DR. BUB DID PROVIDE US, HOWEVER, WITH ADDITIONAL COMMENTS AND PROJECTIONS CONCERNING THE VARIOUS COMPONENTS OF THE CURRENT ACCOUNT. AS WE POINT OUT IN THE DISCUSSION BELOW, THESE MORE DETAILED PROJECTIONS AND COMMENTS DO NOT, HOWEVER, ADD UP TO A COMPLETELY CONSISTENT WHOLE. WHILE DR. BUB MAY, OF COURSE, HAVE GOTTEN SOME OF HIS FIGURES MIXED UP, WE ARE MORE INCLINED TO THINK THAT IT INDICATES THAT BUNDESBANK THINKING ON THESE QUESTIONS IS STILL IN SOME STATE OF FLUX. THE
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BUNDESBANK NEVERTHELESS APPARENTLY WAS ANXIOUS TO PUBLICIZE ITS OVERALL CONCLUSION WELL IN ADVANCE OF THE SERIES OF UPCOMING INTERNATIONAL MEETINGS. DR. BUB WAS VERY FRANK AND OPEN IN THE DISCUSSION WITH US, AND WE REQUEST THAT HIS MORE DETAILED PROJECTIONS AND COMMENTS BE PROTECTED AND THAT IN PARTICULAR THE INCONSISTENCIES SHOULD NOT BE USED IN DISCUSSIONS WITH GERMANS OR OTHER FOREIGN OFFICIALS.

4. CONCERNING TRADE, DR. BUB STRESSED THE BREAK DURING THE FOURTH QUARTER OF 1976 IN THE GROWTH TREND OF GERMAN EXPORTS AND HIS CONVICTION THAT THIS MAY REPRESENT A TURNING POINT SIGNALING THAT -- CONTRARY TO PREVIOUS ASSUMPTIONS -- GERMAN EXPORT GROWTH IN 1977 MIGHT WELL BE BELOW THE TOTAL GROWTH IN WORLD TRADE. DURING THIS PART OF THE DISCUSSION HE SAID THAT INTERNALLY THE BUNDESBANK NOW ENVISAGES A 1977 TRADE BALANCE OF PLUS DM 32 BILLION AND AN INVISIBLES DEFICIT OF MINUS DM 28 BILLION WITH A RESULTING

CURRENT ACCOUNT SURPLUS OF DM 4 BILLION. WHEN WE GOT

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INTO MORE DETAILED PROJECTIONS OF EXPORTS AND IMPORTS
HE INDICATED, HOWEVER, THAT THE BUNDESBANK NOW EXPECTS
EXPORT OF GOODS TO GROW BY 9 PERCENT DURING 1977 AND
IMPORTS BY 10.5 PERCENT, BOTH IN CURRENT PRICES.
CONCERNING SERVICES, HE SAID THAT THE BUNDESBANK
EXPECTS THE DEFICIT TO INCREASE FOR 1977 BY ABOUT
DM ONE BILLION (IN CURRENT PRICES) ABOVE 1976, DUE
MAINLY TO HIGHER TRAVEL EXPENDITURES OF GERMANS ABROAD
OFFSET IN PART BY HIGHER GERMAN INVESTMENT INCOME.
THE BUNDESBANK ALSO EXPECTS A DM ONE BILLION INCREASE
IN THE DEFICIT ON TRANSFER ACCOUNT DUE TO INCREASES
IN TRANSFERS TO INTERNATIONAL ORGANIZATIONS PARTLY
OFFSET BY LOWER REMITTANCES OF FOREIGN WORKERS. IF
ONE APPLIES THESE PERCENTAGE CHANGES AND ABSOLUTE
INCREASES TO THE 1976 RESULTS, WE CALCULATE THAT THE
FOLLOWING 1977 PROJECTION EMERGES:

DM BILLION

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EXPORTS	279.3 (PLUS 9 PERCENT)
IMPORTS	244.9 (PLUS 10.5 PERCENT)

TRADE BALANCE	34.4
SERVICE BALANCE	MINUS 9.8
TRANSFER BALANCE	MINUS 18.7

CURRENT ACCOUNT	PLUS 5.9
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OR, IF A TRADE

SUPPLEMENT OF LAST

YEAR'S MAGNITUDE

IS INCLUDED	PLUS 5.4
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5. IN RESPONSE TO OUR QUESTIONS, BUB INDICATED THAT THE NEW TRADE PROJECTION INVOLVED A VOLUME INCREASE OF EXPORTS OF PLUS 8 PERCENT AND OF IMPORTS OF PLUS 9 PERCENT. HE EXPLAINED THE VERY LOW PRICE INCREASES IMPLICIT IN A COMPARISON OF HIS VOLUME AND VALUE PROJECTIONS BY A CONTINUATION OF THE DOWNWARD TREND IN EXPORT PRICE INCREASES AND AN ASSUMED FURTHER UPWARD VALUATION OF THE DEUTSCHEMARK DURING THE COURSE OF 1977, IN LINE WITH DIFFERENTIAL INFLATION RATES. WE, NEVERTHELESS, FIND IT DIFFICULT TO ACCEPT SUCH VERY LOW PRICE INCREASE PROJECTIONS AND SUSPECT THAT TO SOME EXTENT THEY MAY BE DUE TO THE FACT THAT THE BUNDESBANK FOR THE TIME BEING WANTS TO MAINTAIN THE PAST EXPORT AND IMPORT PROJECTIONS IN REAL TERMS IN ORDER TO AVOID HAVING TO REVISE OTHER PROJECTIONS (SUCH AS GNP) INTO WHICH THESE ENTER. IF, FOR EXAMPLE, ONE ASSUMED THAT IMPORT PRICES WOULD INCREASE IN LINE WITH DOMESTIC PRICES (WHICH WOULD SEEM REASONABLE IF EXCHANGE RATE CHANGES ARE ASSUMED TO OFFSET DIFFERENTIAL INFLATIONARY DEVELOPMENTS) AND THAT EXPORT PRICES (IN TERMS OF DM) WOULD INCREASE BY 3 PERCENT, I.E., SOMEWHAT BELOW DOMESTIC PRICES, THE BUNDESBANK CURRENT PRICE TRADE PROJECTIONS WOULD IMPLY

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AN INCREASE OF EXPORTS IN REAL TERMS OF ONLY 6 PERCENT AND OF IMPORTS OF 6 1/2 PERCENT. THIS, IN OUR VIEW, WOULD MAKE IT VERY DIFFICULT TO SEE WHERE THE IMPULSE FOR A GNP GROWTH OF 5 PERCENT SHOULD COME FROM. GIVEN THE BUNDESBANK'S CURRENT ESTIMATE OF A 1.8 MULTIPLIER FOR INCREASE IN IMPORTS ASSOCIATED WITH AN INCREASE IN GNP, IT ALSO WOULD IMPLY A REAL GNP INCREASE BELOW 4 PERCENT.

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6. THE REAL EXPORT AND IMPORT GROWTH PERCENTAGES
BUB GAVE US ALSO ARE INCONSISTENT WITH HIS PREVIOUS
EMPHASIS OF A DECLINING SHARE OF GERMAN EXPORTS IN
TOTAL WORLD EXPORTS.

7. BUB INDICATED THAT, IN HIS PERSONAL VIEW, THE
5 PERCENT REAL GNP GROWTH ESTIMATE FOR 1977 MAY HAVE
TO BE LOWERED SOMEWHAT. HOWEVER, PARTICULARLY DUE
TO THE STATISTICAL PROBLEMS IN THE INDUSTRIAL ORDERS
SERIES, THE BUNDESBANK WANTS TO WAIT UNTIL SOME TIME
IN MAY BEFORE MAKING ANOTHER (INTERNAL) FULL-DRESS
GNP PROJECTION.

8. COMMENT: ANY CURRENT ACCOUNT PROJECTION THIS
EARLY IN THE YEAR IS, OF COURSE, VERY IFFY. THE
MARCH TRADE FIGURES -- WHICH SHOULD BE OUT IN A DAY
OR TWO -- MAY HELP TO CAST ADDITIONAL LIGHT ON
WHETHER THE SHIFT IN GERMAN EXPORT GROWTH (AT CURRENT
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PRICES) IS AS RADICAL AS THE BUNDESBANK ASSUMES.
FOR THE TIME BEING, WE CONTINUE TO FEEL THAT THE FRG
CURRENT ACCOUNT FOR 1977 WILL COME CLOSER TO THE
DM 7.5 BILLION SURPLUS FORECAST IN BONN 6413 THAN
TO THE DM 4.0 BILLION INTERNAL BUNDESBANK FORECAST.
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